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# Documents Give Inside Look Into Arms Deals

## Seized Papers, Tapes Tell of U.S. Sting Operation That Uncovered Scheme to Sell Weapons to Iran

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NEW YORK—Amid the dull noise of business lunches at the Grand Hyatt Hotel's darkly elegant Trumpets restaurant, three men at a back table spread out a world map dotted with 40 red stars. "Wars," explained a short, muscular man, jabbing a finger at the stars. "Conventional wars, wars of liberation, guerrilla wars . . ."

And opportunities, he added. For Abbott VanBacker, an entrepreneur in the business of selling arms and munitions, 40 wars meant 80 potential customers. "There are so many wars going on . . . there (is) a terrific amount of money to be made in it," he declared.

### Focus on Red Star

It was the red star over the Persian Gulf, however, that commanded most attention at this unusual business conference—a meeting to discuss one of the largest private arms deals ever attempted in the United States, an order for \$2 billion in military weapons and spare parts for the revolutionary Iranian government of Ayatollah Ruhollah Khomeini in its war against Iraq.

VanBacker, 61, and his partner, Alan G. Harvey, 73, the men with the map, assured their potential customer—the customer would later recall—that they had a "golden spider web" of business and political associates. Members of "our team" could circumvent the U.S. ban on arms shipments to Iran, they said.

One part of the team, VanBacker contended, was a former Cabinet member. If there were any prob-

lems with federal authorities, he would "pull our chestnuts out of the fire," VanBacker said.

Matt Mattucci listened intently. Four days earlier he and his older brother, Nick, in a show of their own financial strength as middlemen representing Iran, had taken

VanBacker and Harvey to their private bank vault and displayed a 250-pound stack of hundred-dollar bills—the \$10 million VanBacker said he would need to bribe appropriate officials in the U.S. and abroad. But VanBacker and Harvey never completed the deal with the men they thought were the ayatollah's emissaries. Instead, they were snared in the biggest undercover sting operation ever conducted by the federal government's Bureau of Alcohol, Tobacco and Firearms.

The tall, dark and glib Matt Mattucci turned out to be ATF special agent Matthew Raffa. His brother, Nick, was Nicholas Angell, a high-ranking ATF official who, nearing retirement, ignored orders from Washington and went undercover to direct the sting. And their \$10 million was briefly borrowed from the Federal Reserve at a cost of \$35,000 a day in interest.

### Arms Shipment Halted

VanBacker and Harvey never got their hands on the down payment. Although they told the undercover team they had located supply sources for much of the \$2-billion order, they never had any of the weapons shipped before federal agents arrested both men and a partner on charges of conspiracy to illegally export arms to Iran.

The story of the deal—pieced together from previously confidential investigative reports, prosecutors' files, seized business documents and hundreds of hours of secretly recorded tapes stored in Bayonne, N.J., at the Federal Archives and Records Center—offers an exceptionally detailed glimpse of the world of private arms merchants.

The underground arms business has boomed in recent years. Although the sting involved more arms than the United States supplies to either Israel or Egypt in a

typical year, no one seemed surprised by its size. Since 1979, arms merchants for the ayatollah had tapped into sources as diverse as surplus stores, defense contractors and America's own military supply depots to gain what U.S. authorities call "alarming access" to American military equipment, everything from missiles to nuts and bolts.

According to ATF statistics, prosecutions of illegal arms export cases in the last year more than doubled over 1983-84—a tribute both to Iran's presence in the arms black market and to successful undercover investigations by ATF, the FBI and the U.S. Customs Service. "But we're only scratching the surface," one veteran investigator said. "We're not hurting the bad guys—not really."

Documents from the VanBacker case present a picture of both legitimate and illicit deals, of lucrative opportunities and elusive successes, of con men and businessmen, of intrigue and deception, of political connections and claims of governmental influence.

For example, the documents show:

—The arms merchants repeatedly claimed that their "paid legal consultant and adviser" was Robert B. Anderson, former Treasury secretary in the (Dwight D.) Eisenhower Administration and now a New York lawyer and international banker. The secretly recorded conversations were later played in VanBacker's federal trial. Anderson was not called to testify, but he later denied any involvement with VanBacker.

—VanBacker had business dealings unrelated to the Iran arms deal with Helen Delich Bentley, former chairwoman of the Federal Maritime Commission under President Richard M. Nixon and now a first-term Republican congresswoman from Maryland who at the time was running two export firms from her home and was seeking to supply 7.5 tons of fuses for tank grenades to Ecuador. Bentley told *The Times* that VanBacker was a business acquaintance with whom she also unsuccessfully sought to negotiate oil deals.

—Several of the arms dealers VanBacker and Harvey approached to supply portions of the shipment today face criminal charges over apparently unrelated allegations of arms export violations. They include Dan McLeod of San Diego, now under indictment in Florida; H. Leonard Berg of New

York, facing trial in Brooklyn and Robert Gray of New York, named in multiple federal complaints stemming from alleged illegal exports to Argentina, Poland and the Soviet Union.

#### **Began as Routine Probe**

For all its international intrigue, the VanBacker case began as something much different: a routine investigation into illegal machine-gun sales in New York City.

ATF agent Raffa had been working the streets—buying a few automatic weapons in Queens or boxes of handguns in Manhattan—when an informant led him to Robert Krejcik, a Czechoslovakian emigre. Krejcik and his partner, Harvey, who operated from the 10th-floor offices of a company called United States Motors on Manhattan's west side, were offering to sell MAC-10 and MAC-11 machine guns with silencers and no serial numbers—weapons small enough to slip into a jacket pocket yet capable of firing a 30-shot clip in a three-second burst.

Raffa posed as the security director for an international company who occasionally arranged covert gun buys for the Irish Republican Army. On St. Patrick's Day, 1983, the agent agreed to pay Krejcik \$1,500 for a sample machine gun.

In mid-April, at the Plaza Hotel's wood-paneled Oyster Bar, Raffa handed Krejcik a white envelope stuffed with \$6,500 as down payment for 10 more machine guns. But Krejcik injected a new element into their dealings—a claim that he could supply military weapons and equipment as well as the light machine guns if Raffa could line up customers.

#### **Refers to Commissions**

Raffa wrote in his report: "Krejcik abruptly began to discuss the sale and commission I would make if I were to sell other products . . . . He began to jot down these figures on an advertisement for Guinness Stout."

Among the "other products" were 60 fully equipped Cobra attack helicopters (\$6 million each), four C-130 transport planes (\$26 million each), 20,000 rocket-propelled grenades (\$3.8 million), 40,000 hand grenades (\$360,000), 10,000 MAC-10 machine guns (\$10 million) and a number of M-48 Army tanks (\$1.2 million each).

With a practiced casual air, Raffa assured Krejcik that he would "ask around at the United Nations and at

various embassies and consulates to determine if I could secure an order for these items."

It was not an unusual exchange. Buyers and sellers in the private arms trade—both legitimate and shady—are routinely brought together by middlemen.

In the weeks that followed, as they negotiated an initial \$100-million weapons package, Raffa introduced Krejcik and Harvey to "my older brother, Nick," supposedly an international banker who contended that he had previously negotiated three big arms deals with Iranian agents.

#### **'Brother Nick' Welcomed**

The two principals of United States Motors welcomed "Brother Nick"—a cigarette-smoking, taciturn man who actually was in charge of ATF operations from Puerto Rico to Maine. Agents joked that going undercover was one way for Angell to keep an eye on the expense account of Raffa, who played the role of a free-spending, Corvette-driving playboy.

Raffa told the arms merchants that, with Nick on board, greater financing was possible, and the deal could grow. What began as a \$1,500 machine-gun deal was about to evolve into a \$2-billion scheme to equip an entire army.

While Harvey and Krejcik had dabbled previously in international arms and military supply deals—attempting to sell Cobra helicopters to Iraq, Boeing 747 cargo planes to Libya and machine guns with silencers to Greece, for example—the biggest export deal for which they obtained U.S. government approval was the sale of 10 rifles to Belgium.

Looking for a partner with wider connections and greater experience, they turned to VanBacker—the man Harvey called "the general," a former shoe salesman from Scranton, Pa., who had traveled throughout Europe, Africa and the Middle East as a representative of an engineering and construction firm, developing impressive international business contacts.

#### **No Novice to Big Deals**

The \$2-billion order represented a mammoth logistical challenge, but VanBacker was no novice to large export deals. Court records disclose that he had engaged in a wide variety of international business negotiations—attempting, for example, to market military field hospitals to Africa, a complete munitions factory to the Philippines, bulletproof vests to Peru and heavy-duty trucks to the Peoples

Republic of China.

In addition, his subpoenaed business records and the investigative reports of federal agents show that VanBacker had established business relationships with such foreign officials as Brig. Gen. Ephraim Poran, a former military adviser to Israeli Prime Ministers Yitzhak Rabin and Menachem Begin, and Mohammad Mashari Abdulaziz al Saud, a nephew of Saudi Arabia's King Fahd.

John Black, a New Jersey exporter and friend of VanBacker's, told federal investigators that while the Shah of Iran was hospitalized in New York in 1979, one of the shah's sons called Black in an attempt to locate VanBacker. "He wanted VanBacker's assistance in a military operation to regain power in Iran, for which the Shah had \$54 million," Black recalled for ATF agents.

With VanBacker's arrival, Krejcik faded into the background. Harvey moved to form a new company—"Van-Harvey International"—to funnel the expected cash payments from Iran into foreign corporations and banks as part of a plan to "throw off the hounds." The arms dealers explained in secretly recorded conversations that their identities and the nature of their business could be concealed from official scrutiny by processing the money through a succession of companies, ultimately ending in a country such as Saudi Arabia where VanBacker said financial secrecy could be guaranteed.

#### **Advice on Transactions**

In private discussions recorded by investigators, Harvey and VanBacker agreed that they would seek Anderson's advice on how to structure those transactions.

Harvey first mentioned Anderson's name to Raffa at a lunch on April 29, boasting that the former Cabinet member was "on our payroll" to help tailor future export documents. To an ATF agent, it was a particularly startling remark because ATF, as a branch of the Treasury Department, was under Anderson's administrative control in the 1950s.

The investigators later intercepted a phone conversation in which VanBacker told Harvey that he had just met with "our friend, Mr. A." In court, Harvey later said Mr. A was a reference to Anderson.

In the conversation with his partner, VanBacker said he had asked Anderson to serve as their "adviser, counselor" in the Iran arms deal. VanBacker, in a brief telephone interview from federal prison, recently denied that Ander-

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son was part of the Iran scheme. What agents overheard on a telephone wiretap in July of 1983, however, was VanBacker's claim to Harvey that Anderson "would like to have a piece of the profits. He's already declaring himself in."

#### **Sought Reassurance**

Raffa and Angell pressed for a meeting with Anderson, saying they were reluctant to pay any of the \$10 million stored in their safety deposit vault until they were confident that Anderson could help resolve problems that might arise in exporting the weapons.

Their insistence finally angered VanBacker, who complained in another intercepted telephone conversation with Harvey that the arms buyers were "asking us to compromise a former official . . . . He is a member of the team, he will acknowledge that he is interested in covering our best interests, period. He will not compromise himself to two people . . . who could be ATF stoolies."

In an interview, Anderson said that VanBacker exaggerated their relationship, calling VanBacker's recorded claims "sheer mythology." He told The Times that J. Collins Coffee, a New York business consultant, brought VanBacker to his office several years ago to discuss a security firm Coffee wanted Anderson to help set up.

"I said hello to him and maybe visited for 10 or 15 minutes and he left . . . . I never saw the man before or after," Anderson said. "I've never been involved in a thing with him in my life."

#### **Help for VanBacker Alleged**

However, longtime Anderson friend John P. Sheffey III, a former State Department official, told The Times that Anderson called him and "asked me to put VanBacker in contact with someone in Washington who knew how to procure weapons."

Sheffey, who was once an aide to Anderson, said he was told that VanBacker was interested in obtaining missiles. As "a favor to Anderson," Sheffey called retired four-star Gen. John R. Deane Jr., who once headed the U.S. Army Materiel Command.

Deane said that he met VanBacker at LaGuardia Airport in New York, where VanBacker asked about Dragon and TOW anti-tank missiles but was "vague about what he wanted . . . . He didn't say who he was sending to."

Deane said he repeatedly advised VanBacker that he would need proper export documents before attempting any international sales.

many times that he figured I wasn't the kind he wanted," Deane said.

Anderson said that he could not recall asking Sheffey to help VanBacker.

#### **'No Recollection'**

"John Sheffey is an honest, up-right great guy . . . and if he said I called him, I wouldn't deny it," Anderson said. But he added: "I have no recollection of it."

In the summer of 1983, with VanBacker adamantly opposed to introducing Raffa or Angell to Anderson, the agents moved ahead with the arms deal. With the help of Air Force logistics specialists who catalogued the equipment and parts required to wage a 30-day desert war, they put together a 51-page shopping list of weapons, spare parts and military equipment.

VanBacker and Harvey, who received the list from Raffa at the same Grand Hyatt lunch where they reviewed the map with 40 red stars, later broke it down into product types—from explosives to heavy combat equipment and aircraft parts. Then they contacted selected dealers and suppliers for price quotations. No one dealer was to know how large the total order was, they agreed in recorded conversations.

To fill the fabricated \$2-billion Iran order, VanBacker and Harvey sought suppliers for such items as Cobra helicopters in Florida, tanks in California and M-16 rifles in Connecticut. VanBacker booked a flight to London to search for spare parts for F-4 jet fighters. Inquiries for price quotes also went out to Gray, Berg and McLeod, among many others.

#### **Sidestepping U.S. Rules**

To ship the weapons to Iran, the arms suppliers would have to circumvent the requirement that the export of all items on the U.S. Munitions List—everything from missiles to tank parts—must receive government approval even for shipment to friendly nations. Licenses are granted only when the recipient government certifies that it will not re-export the arms without U.S. authorization. And Iran is among countries banned from receiving virtually any U.S. weapons and technology.

VanBacker proposed to bribe foreign officials to sign certificates falsely claiming that shipments were intended for their country. In various recorded conversations, VanBacker said he could get a phony certificate from Liberia in exchange for a Mercedes Benz—or from Saudi Arabia, but the price would be too high.

Harvey considered using a contact in Brazil, a plan that was scrapped when the contact's business partner, U.S. millionaire George M. Perry, was found murdered in upstate New York, his body floating in Lake Tiorati. State investigators said Perry's Brazilian business partner had been engaged in a \$1-billion arms deal in Europe with a nephew of the ayatollah, a deal that had collapsed six months earlier.

Harvey ruled out using England, saying: "They're too starchy." Both men agreed that their preference would be to get the phony documents from Egypt where the "commission" could be 8% to 12% of the total shipment price.

#### **Use of Bribes**

Besides phony export documents, other schemes were under consideration by the arms merchants. They could circumvent U.S. export controls, they said, by hiring a ship's captain willing to detour to Iran in mid-voyage. Whatever plans were employed, VanBacker emphasized, it would require "baksheesh"—bribes—paid in advance to foreign officials.

As negotiations neared the crucial moment—when the \$10 million would be handed over to VanBacker and Harvey as down payment on the \$2-billion order—Angell expressed doubts to the arms dealers about the plan's details. VanBacker and Harvey eagerly offered assurances about the reliability of their plan and the people who would support it—"our family," Harvey liked to call his associates.

Among others in the "family," according to VanBacker, was CIA Director William J. Casey. In conversations recorded by government agents and later discussed in court, VanBacker said, for instance, that he had a "close relationship" with Casey, and "I can go down to Casey's office and talk with him all day long." A CIA spokesman who checked with Casey said: "He has never heard of Mr. VanBacker."

Angell testified that VanBacker also showed him his address book containing handwritten entries for Deane, whom he described as one of his "associates" who "could help out in various aspects" of the arms deal. In a conversation recorded by agents after the arms merchants examined the \$10 million, VanBacker added: "Gen. Deane doesn't work for nothing." Deane called VanBacker's assertions "a god-damned lie."

None of the records seized from VanBacker's office revealed evidence of any business dealings with Casey or Deane.

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The records did disclose that Bentley, while in the export business a year before her election to Congress, sought price quotations

from VanBacker on a contract to supply about \$1.5 million in grenade fuses to Ecuador. She said in an interview that this deal fizzled, as did several non-munitions deals she talked about with VanBacker after she went into private business following her tenure as head of the Maritime Commission from 1969 to 1975.

Among VanBacker's other associates was Douglas Zaglaviras, who was seized by FBI agents in New York last month and charged with plotting to illegally import and sell 2,000 heat-seeking missiles. A few

months before taking on the bogus Iran order, VanBacker had signed a \$162-million contract with Zaglaviras, who then claimed to be a Greek general and who federal investigators now suspect is a former military adviser to deposed Nicaraguan strongman Anastasio Somoza, to supply Cobra helicopter gunships. VanBacker used the signed purchase order of "Marshal General Zaglaviras" to impress upon Raffa his ability to handle large arms deals.

Shortly before the ATF agents ended their charade on July 26, 1983, VanBacker offered one particularly revealing insight into the code of the illegal arms merchant when a hidden recorder taped him saying:

"I've been in many questionable situations . . . . The only things I won't do, and I will tell you here and now, is direct jeopardy to this country's survival. I won't do it. Otherwise . . . ."

After their arrests, Harvey and Krejcik pleaded guilty to weapons and conspiracy violations. Harvey cooperated with authorities and served a brief sentence; Krejcik is

still in prison.

VanBacker demanded a jury trial, and his attorney attempted to portray him as a man prone to exaggeration and "on the fringe of the arms trade." He was convicted of conspiracy charges and sentenced to two years in Allenwood federal prison camp in Pennsylvania.

In a subsequent appeal, another VanBacker lawyer argued that his client's "only guilt was overacting."

"He painted himself as a major arms dealer akin to that of (famous World War I-era European munitions dealer) Sir Basil Zaharoff," attorney Aaron J. Jaffe told the U.S. 2nd Circuit Court of Appeals. "He postured, posed and puffed . . . . He declaimed friendship with the famous and the powerful. Names flowed from his lips like a torrent . . . . His sole deliverable weapon was conversation."

The appeal was denied.

Times staff writer John Goldman in New York and researcher Doug Connor in Los Angeles contributed to this article.